

C94I00 Subsequent Injury Fund

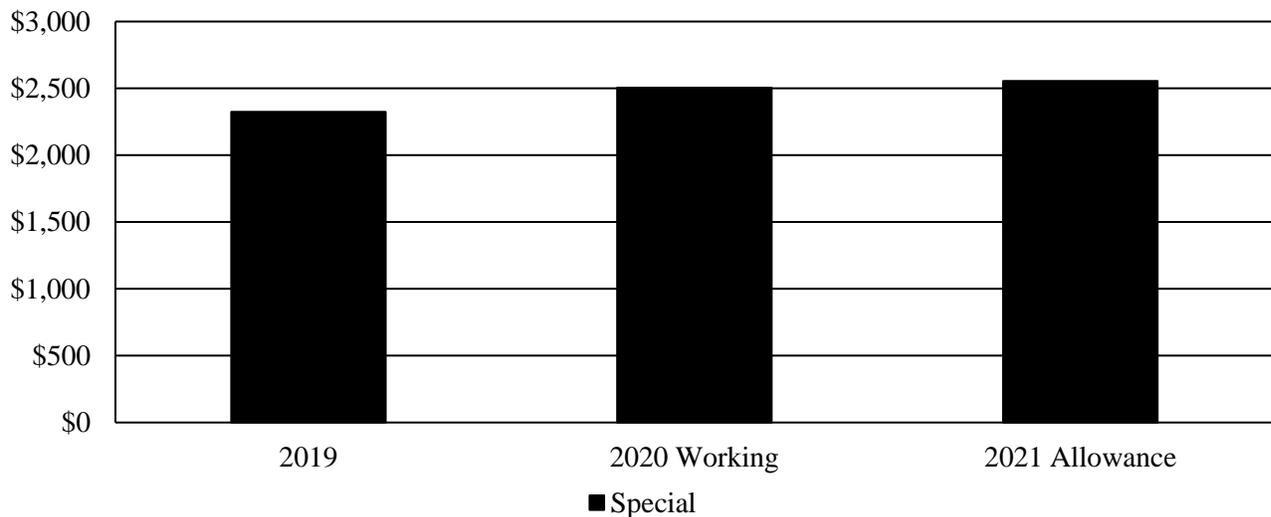
Program Description

The Subsequent Injury Fund (SIF) compensates injured workers whose pre-existing injuries, diseases, or congenital conditions are substantially worsened by a current injury. SIF receives special funds from a legislatively mandated 6.5% assessment on (1) awards against employers or insurers for permanent disability or death; and (2) amounts payable by employers or insurers under settlement agreements. The purpose of SIF is to encourage the employment of disabled individuals by limiting an employer's liability should a subsequent occupational injury render an individual permanently disabled or result in death. Employers or their insurers are liable only for damage caused by the current workplace injuries. SIF incurs the additional liability for damage resulting from the combined effects of all injuries and conditions. The SIF mission addresses the need to:

- efficiently defend SIF resources against inappropriate use;
- provide monetary benefits to qualified disabled workers injured on the job in accordance with awards passed by the Workers' Compensation Commission (WCC); and
- maintain the adequacy and integrity of the SIF fund balance.

Operating Budget Summary

Budget Increases by \$50,000 or 2% to \$2.556 Million in Fiscal 2021 (\$ in Thousands)



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

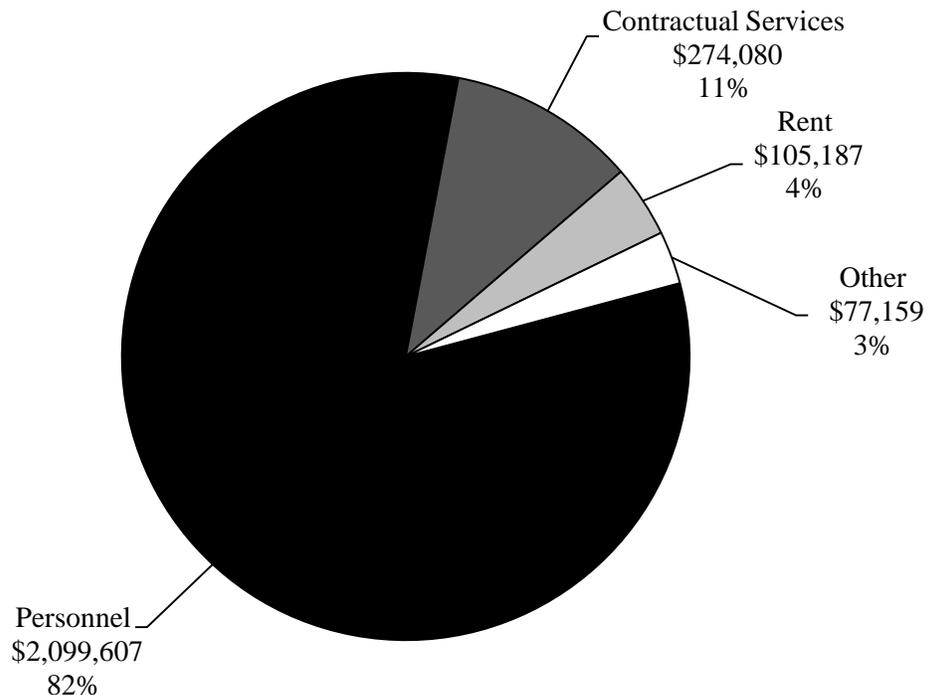
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Fiscal 2021 Overview of Agency Spending

SIF’s costs are driven almost entirely by personnel, as shown in **Exhibit 1**. Of the agency’s \$2.5 million fiscal 2021 allowance, \$2.1 million, or 82%, is for personnel.

Exhibit 1
Overview of Agency Spending
Fiscal 2021 Allowance



Source: Governor’s Fiscal 2021 Budget Books

Proposed Budget Change

As shown in **Exhibit 2**, the fiscal 2021 allowance for SIF increases by approximately \$50,000 in special funds, or 2%, compared to the fiscal 2020 working appropriation. Including statewide personnel actions budgeted in the Department of Budget and Management, personnel costs at SIF decrease by \$6,377. Salary increases including fiscal 2020 and 2021 cost-of-living adjustments are offset by decreases in health insurance costs. Outside of personnel, the only significant change in the fiscal 2021 allowance compared to the fiscal 2020 working appropriation is a \$64,192 increase in contractual costs, primarily due to an actuarial study done once every five years to determine the fund’s ability to meet future obligations.

**Exhibit 2
Proposed Budget
Subsequent Injury Fund
(\$ in Thousands)**

| How Much It Grows: | <u>Special Fund</u> | <u>Total</u> |
|--|----------------------------|----------------------|
| Fiscal 2019 Actual | \$2,325 | \$2,325 |
| Fiscal 2020 Working Appropriation | 2,506 | 2,506 |
| Fiscal 2021 Allowance | <u>2,556</u> | <u>2,556</u> |
| Fiscal 2020-2021 Amount Change | \$50 | \$50 |
| Fiscal 2020-2021 Percent Change | 2.0% | 2.0% |
| | | |
| Where It Goes: | | <u>Change</u> |
| Personnel Expenses | | |
| Retirement contributions | | \$18 |
| Fiscal 2021 2% COLA | | 18 |
| Increments and other compensation | | 13 |
| Fiscal 2020 1% COLA | | 9 |
| Other fringe benefit adjustments | | 3 |
| Employee and retiree health insurance | | -67 |
| Other Changes | | |
| Contractual services for actuarial study required every five years | | 64 |
| Legal and medical service support | | -7 |
| Other | | -1 |
| Total | | \$50 |

COLA: cost-of-living adjustment

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

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Personnel Data

| | <u>FY 19</u> <u>Actual</u> | <u>FY 20</u> <u>Working</u> | <u>FY 21</u> <u>Allowance</u> | <u>FY 20-21</u> <u>Change</u> |
|------------------------|---|--|--|--|
| Regular Positions | 17.00 | 17.00 | 17.00 | 0.00 |
| Contractual FTEs | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Total Personnel | 17.00 | 17.00 | 17.00 | 0.00 |

Vacancy Data: Regular Positions

| | | | |
|---|--|------|-------|
| Turnover and Necessary Vacancies, Excluding New Positions | | 0.00 | 0.00% |
| Positions and Percentage Vacant as of 12/31/19 | | 0.00 | n/a |
| Vacancies Above (Below) Turnover | | 0.00 | |

Key Observations

1. Fund Balance Continues Steady Growth

SIF receives special funds from a 6.5% assessment on awards against employers or insurers for permanent disability or death and amounts payable by employers or insurers under settlement agreements. In addition to providing for the agency’s operating expenses, the assessment is designed to build reserves for the payment of benefits to qualified disabled workers injured on the job in accordance with awards approved by WCC. **Exhibit 3** shows the balance in the fund since the end of fiscal 2010.

Exhibit 3
Subsequent Injury Fund History
Fiscal 2010-2020 Est.

| <u>Fiscal Year</u> | <u>Balance</u> | <u>Percent Change</u> |
|--------------------|----------------|-----------------------|
| 2010 | \$70,754,896 | 8.24% |
| 2011 | 73,025,353 | 3.21% |
| 2012 | 78,107,299 | 6.96% |
| 2013 | 80,989,370 | 3.69% |
| 2014 | 81,243,776 | 0.31% |
| 2015 | 82,185,258 | 1.16% |
| 2016 | 85,259,943 | 3.74% |
| 2017 | 90,670,459 | 6.35% |
| 2018 | 95,294,285 | 5.10% |
| 2019 | 100,509,872 | 5.47% |
| 2020 Est. | 105,546,372 | 5.01% |

Source: Subsequent Injury Fund

Fund growth results when revenue from assessments exceeds payments from the fund and agency expenses. The fund has grown at an average annual rate of 4.1% over the last decade, with a fiscal 2020 closing balance estimated to be \$105.5 million. SIF holdings are intended to provide the source of capital that offsets future liabilities whose value is calculated periodically by an actuarial study. An actuarial study issued in 2016 found that SIF had liabilities between \$195 million and \$385.5 million, depending on assumptions about the mortality of recipients and discount rate. SIF’s goal is to eliminate its unfunded liabilities.

2. Cases Resolved Continue to Exceed Cases Opened

Exhibit 4 shows SIF’s caseload measures. From a high of 1,089 cases in fiscal 2013, the number of resolved cases has decreased to only 750 in fiscal 2019, an annual decline of 6%. New and reopened

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cases also declined over the same period, and the agency continues to resolve more cases than are opened each year. The agency attributes the decline in caseload to the decline of jobs in heavy industry and manual labor that are more likely to lead to injuries, as well as increases by employers in risk management programs.

Exhibit 4
Subsequent Injury Fund Caseload
Fiscal 2012-2019

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| New Cases Opened | 885 | 868 | 876 | 700 | 711 | 628 | 643 | 536 |
| Cases Reopened | 133 | 110 | 121 | 144 | 133 | 136 | 131 | 107 |
| Cases Resolved | 964 | 1,089 | 1,007 | 964 | 931 | 817 | 819 | 750 |
| Net Unresolved Cases | 54 | -111 | -10 | -120 | -87 | -53 | -45 | -107 |

Source: Governor’s Fiscal 2021 Budget Books

Another gauge of administrative productivity is operating cost per claim. Different cases merit different costs in terms of medical exams, depositions, and other legal fees; **Exhibit 5** shows the average cost per claim. The average cost per claim has been on a steady upward trajectory since fiscal 2014. In fiscal 2019, the average cost per claim was \$3,100, more than 50% higher than in fiscal 2014. While caseloads have declined, payment rates have increased, which leads to higher SIF costs for negotiated settlement agreements.

Exhibit 5
Subsequent Injury Fund Administrative Costs
Fiscal 2014-2021 Est.

| | <u>Actual</u> <u>2014</u> | <u>Actual</u> <u>2015</u> | <u>Actual</u> <u>2016</u> | <u>Actual</u> <u>2017</u> | <u>Actual</u> <u>2018</u> | <u>Actual</u> <u>2019</u> | <u>Est.</u> <u>2020</u> | <u>Est.</u> <u>2021</u> |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|----------------------------|----------------------------|
| Operating Budget Cost Per Resolved Claim | \$2,033 | \$2,276 | \$2,477 | \$2,820 | \$2,792 | \$3,100 | \$3,330 | \$3,362 |
| Ratio of Fund Expenditures to Total Collections | 0.992:1 | 0.965:1 | 0.887:1 | 0.804:1 | 0.832:1 | 0.812:1 | 0.821:1 | 0.821:1 |

Source: Governor’s Fiscal 2021 Budget Books

The ratio of expenditures to collections continues to remain below 1:1, which leads to continued growth in the fund balance. The fund expects the ratio to stay below 1:1 through fiscal 2021.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

**Appendix 1
Object/Fund Difference Report
Subsequent Injury Fund**

| <u>Object/Fund</u> | <u>FY 19 Actual</u> | <u>FY 20 Working Appropriation</u> | <u>FY 21 Allowance</u> | <u>FY 20 - FY 21 Amount Change</u> | <u>Percent Change</u> |
|---|-------------------------|--|----------------------------|--|---------------------------|
| Positions | | | | | |
| 01 Regular | 17.00 | 17.00 | 17.00 | 0.00 | 0% |
| Total Positions | 17.00 | 17.00 | 17.00 | 0.00 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 1,941,907 | \$ 2,097,421 | \$ 2,064,763 | -\$ 32,658 | -1.6% |
| 02 Technical and Spec. Fees | 73,496 | 105,000 | 98,000 | -7,000 | -6.7% |
| 03 Communication | 44,356 | 16,627 | 16,800 | 173 | 1.0% |
| 04 Travel | 22,452 | 26,500 | 26,500 | 0 | 0% |
| 08 Contractual Services | 92,956 | 111,888 | 176,080 | 64,192 | 57.4% |
| 09 Supplies and Materials | 11,248 | 11,000 | 9,500 | -1,500 | -13.6% |
| 10 Equipment – Replacement | 8,107 | 0 | 0 | 0 | 0.0% |
| 11 Equipment – Additional | 1,164 | 0 | 0 | 0 | 0.0% |
| 12 Grants, Subsidies, and Contributions | 12,000 | 12,000 | 12,000 | 0 | 0% |
| 13 Fixed Charges | 116,300 | 116,245 | 116,746 | 501 | 0.4% |
| 14 Land and Structures | 649 | 800 | 800 | 0 | 0% |
| Total Objects | \$ 2,324,635 | \$ 2,497,481 | \$ 2,521,189 | \$ 23,708 | 0.9% |
| Funds | | | | | |
| 03 Special Fund | \$ 2,324,635 | \$ 2,497,481 | \$ 2,521,189 | \$ 23,708 | 0.9% |
| Total Funds | \$ 2,324,635 | \$ 2,497,481 | \$ 2,521,189 | \$ 23,708 | 0.9% |

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.